

UNITED STATES CIVIL SERVICE COMMISSION

BUREAU OF RETIREMENT AND INSURANCE

WASHINGTON 25, D.C.

ADDRESS REPLY TO
"U.S. CIVIL SERVICE COMMISSION"
AND REFER TO

FILE RH:HEH:aha

AND DATE OF THIS LETTER

OCT 31 1961

Government Employees Health Association, Inc.
 P. O. Box 463
 Washington 4, D. C.

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Dear [redacted]

During the past year we have received Interim Accounting Statements on the operation of your plan under the Federal Employees Health Benefits Act of 1959. As the first contract period is fast coming to a close, it was felt that we should take this opportunity to review some of the more significant points which must be considered in closing out the contract period.

The quarterly statements we have received from you have generally fulfilled our needs but the final accounting statement provided for in your contract requires the most careful consideration in its preparation. This final statement for the period July 1, 1960 through October 31, 1961 is due in the Commission no later than February 1, 1962; however, we would appreciate receiving it at the earliest date possible.

As stated in our letter of December 20, 1960, you do not have to submit an interim statement as of September 30, 1961. With that letter, we also provided you with Explanatory Notes Applicable to Interim and Annual Accounting Statements as a guide to the preparation of the statements, supporting schedules, the accrual of subscription charges, etc. An additional copy for your ready reference is enclosed. We hope you will follow these guidelines carefully in preparing the final annual statement.

The subscription charges transmitted to you during the period July 1960 through October 1961 must be reported on line 1A "Subscription Charges Received" of your Annual Accounting Statement as follows:

High Option	<u>\$1,457,965.15</u>
Low Option	<u>131,764.04</u>
Total	<u>\$1,589,729.19</u>

- 2 -

Subscription Charges received should reflect the amount of subscription charges received by the Association regardless of the date that the funds are received by the Underwriter. Because of the importance to the plan that all income be made available promptly for the payment of benefits and for investments, we urge that the Association provide for immediate transmittal of the subscription charges due the Underwriter as soon as received from the Commission.

The accrual of subscription charges at the end of the first contract year will be determined on the basis of the payments (SF 1166a) made to you on November 9 and 24 and on December 11, 1961 showing "Collections for pay periods applicable to October 31 and prior." Generally, this amount will also include subscription charges for the pay period ending November 11, 1961.

Administrative expenses reported in the annual statement against the contract must not exceed the amount of the percentage limitation of total subscription charges provided in your contract for this item. In support of this amount, we would appreciate a schedule or reproduction of work papers which summarizes the amount of expenses incurred by type of service, such as salaries, rent, travel, supplies, etc. The schedule may reflect all expenses incurred even though in excess of the limitation amount reported on the statement. Where an overhead item is added to the actual costs incurred against the contract, the amount of overhead reported by the Schedule must be supported by an analysis and justification. This schedule will be subject to audit and should be supported by your books and records.

On page 3 of the Explanatory Notes we requested that Income on Investments should be supported by an attached schedule. We would appreciate compliance with this request. ✓

If it has not been the policy during the past sixteen months for the Underwriter to draw its Risk Charge currently from Subscription Charge Income, "Income on Investments," Line 5B of the Schedule may be reduced by the earnings of the Risk Charge which are for the credit of the Underwriter rather than the contract. An acceptable method of determining the Underwriter's share of the investment income would be to:

1. determine the weighted average annual rate of investment income earned (yield) on the basis of the net income received and accrued from such investments under the program; and,

- 3 -

2. apply the average annual rate to one-half (mean) of the amount of Risk Charge times $488/365$. The balance of the net income should be credited to the Special Reserve.

Section 5 of the statement must be prepared only as it relates to the total column. The high and low option data are not applicable and should not be computed. In determining the amount "Due Health Benefits Fund" as a return of subscription charges, any return would be based, without regard to option, on the total subscription charges paid from the Employee Health Benefits Fund in the last three months of the contract period regardless of the pay periods covered. The total subscription charges to be reported in the first Memo line below item 5 and used in this computation are as follows:

August	<u>\$106,710.35</u>
September	<u>107,135.86</u>
October	<u>107,626.72</u>
Total	<u>\$321,472.93</u>

It would appear that no amount would be appropriate for reporting on line 5D.

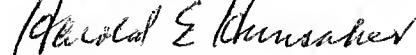
Accounting Statements for the second contract year will be due as follows:

<u>"As of" Date of Report</u>	<u>Period to be Covered</u>	<u>Due in CSC</u>
March 31, 1962	5 months	June 1, 1962
June 30, 1962	8 months	September 1, 1962
October 31, 1962	12 months	No later than February 1, 1963

It has not been our intention to require financial reports just for reports sake. We have tried to set our requirements to enable the Commission to carry out its functions under the act and to achieve a successful Employees Health Benefits Program.

We wish to express our appreciation for the cooperation accorded us by you and your staff throughout the first contract period.

Sincerely yours,



Harold E. Hunsaker

Assistant to the Director

Enclosure

cc: Norman Conway
Mutual of Omaha

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UNITED STATES CIVIL SERVICE COMMISSION
BUREAU OF RETIREMENT AND INSURANCE
WASHINGTON 25, D. C.

Explanatory Notes Applicable to Interim and Annual

Accounting Statements

Federal Employees Health Benefits Program

Purpose of Statements

Financial reports with respect to operations under the contract are necessary for the Commission's administration of the program. Experience under the contract must be evaluated at selected intervals during the contract period as well as at the end of the contract period.

Timing of Statements

Four statements are required for the first contract period. (Timing of statements for future contract periods will be announced later).

<u>"As of"</u> Date of Report	<u>Period to be Covered</u>	<u>Due in CSC</u>
December 31, 1960	6 months	March 1, 1961
March 31, 1961	9 months	June 1, 1961
June 30, 1961	12 months	September 1, 1961
October 31, 1961	16 months	No later than February 1, 1962

Format of Statements

The design of the accounting statement is determined by the provisions of the contract. The carrier should follow the format provided or make special arrangements for any deviation.

For the first contract period, "Beginning of the year," line items are not applicable; however, include these line items in your statements with zero (-0-) amounts.

Subscription Charges

Item 1A, Subscription charges received shall agree with the cash received in the calendar months covered by the statement. Checks received from the Employees Health Benefits Fund (hereinafter called Fund) dated the 25th of the month for which the cumulative statement is prepared must be included even though not deposited.

Revised 10/23/61

Item 1B(2), Subscription charges accrued end of period shall agree with the subscription charges received from the Fund subsequent to the "as of" reporting date but applicable to the pay periods "as of" the reporting dates. The SF's 1166a accompanying certain checks will show, for example:

Collections for pay periods ending:

<u>Date of Check</u>	<u>12/31/60 and prior</u>	<u>1/1/61 and after</u>
1/10/61	\$45.00	\$ -----
1/25/61	27.50	12.50
2/10/61	7.50	37.50
<u>2/25/61</u>	<u>-----</u>	<u>40.00</u>
	<u>\$80.00</u>	

In this example, the \$80.00 will constitute the actual accrual of subscription charges as of December 31, 1960 for reporting purposes. If the third listed check in the above example showed no subscription charges applicable to the reporting period, it may be assumed for purposes of preparing the report, that the fourth check would carry no subscription charges applicable to that period. Interim statements have been scheduled for submission to the Commission sufficiently after the end of the quarter in order to recognize the information furnished on SF 1166a with each check.

Item 1B(2) for the October 31, 1961 accounting statement must be reported in accordance with the regulations on the basis of the SF's 1166a received in November and December 1961 reflecting receipts applicable to the first contract period.

Health Benefits Charges

Health benefits charges are to be segregated between (1) hospitalization charges and (2) physicians' and related charges. This segregation will generally be based on the same definitions used in reporting statistics under the Program.

Health benefits paid represent charges and claims actually paid (disbursed) which are no longer reflected as liabilities to the plan. This item will be supported by an attached schedule or reproduction of workpapers showing charges and claims by months. Allocations of total costs and formulae for such allocations will be supported in detail. For comprehensive medical plans where the charges for health benefits represent this contract's share of clinic or hospital operating costs, this item may be stated in terms of accrued costs rather than paid costs and any supplemental fees for services (\$1.00 per shot or office visit, \$5.00 per home visit, etc.) will be deducted from the gross value of the health benefits charges before reporting such charges in the statement.

Health benefits accrued represent charges and claims incurred for which cash disbursements have not yet been made for benefits rendered. This item will be supported by an attached schedule showing in detail the method by which the accrual is derived.

Expenses and Risk Charges

Actual accrued administrative charges, representing charges incurred, both paid and accrued, will be supported by an attached schedule or reproduction of workpapers as to type of service, such as salaries, rent, travel, supplies, etc. If practicable, these expenses should also be functionalized to such work areas as eligibility files, benefit processing, accounting, statistics, management, etc. Administrative costs may be prorated between "High Option" and "Low Option" in the ratio of the respective subscription charges unless the cost of the various functions should more appropriately be distributed on different ratios, i.e., eligibility files on the basis of enrollment, benefit processing on the basis of claims processed, etc.

Actual accrued taxes, if applicable, as used in this statement mean taxes or governmental fees based on subscription charges. Employer's share of payroll taxes, real estate, and similar taxes, are to be classified as administrative expense.

Memo only items are to be placed in parenthesis () in the amount columns and are not to be included in the subtotals. These items are for comparison purposes.

% indicates that the carrier should insert the percentage applicable to the item as shown in the current contract.

Cumulative Gain (or Loss-)

This section of the report is used to reflect the cumulative status of the program.

Income on investments (current year) should be supported by an attached schedule of investments, dates purchased, purchase price, current value, and any other pertinent information to support the income item.

Due Health Benefits Fund, when shown on the format, represents the amount to be paid to the U. S. Civil Service Commission as a return of subscription charges if the amount determined by the formula is positive. This line item is applicable to the annual statement only. Item 1A for August, September, and October, covers the total subscription charges paid from the Fund in the last three months of the contract period regardless of the pay periods covered.

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